

Success of Crowd-Based Online Technology in Fundraising: An Institutional Perspective

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Abstract:

The use of crowd-based online technology for raising funds is gaining popularity and credibility. This paper seeks to provide a better understanding of the effects of formal and informal institutions on the success of a crowdfunding project. It also analyzes how the effects of different types of institutions are likely to vary across the four different types of crowdfunding projects: (1) crowdlending, (2) crowdequity, (3) reward-based crowdfunding and (4) donation-based crowdfunding. A practical implication of this work is that the ease with which entrepreneurs and other types of fundraisers can raise money via crowdfunding platforms to fund a project depends upon the nature of formal and informal institutions in the economy. A theory of crowdfunding is proposed that explains these developing relationships.

Keywords: Institutions | Crowd-based online technology | Crowdfunding | Legitimacy | Philanthropy | Thin trust | Trade associations

Article:

1. Introduction

The use of crowd-based online technology (CBOT) for raising funds from a large number of people is viewed as a disruptive innovation in entrepreneurial financing as well as other forms of fundraising activities. Crowdfunding (CF), the most popular fundraising application of CBOT, is considered to be a truly global movement with significant financial and economic benefits. Some compare CF investors with angel investors and suggest that CF would create 60 million new angel investors in the U.S. alone (Kitchens and Torrence, 2012). According to an estimate of the World Bank, the global CF market will reach US\$93 billion by 2025 (Swart, 2013). It also has a potential to bring significant changes in social practices and political processes. It is thus important and timely for regulators, investors, entrepreneurs and other stakeholders to observe this rapidly evolving phenomenon and share insights, reflections and observations with each

other. It is also important for these stakeholders to recognize the forces that are shaping the CF phenomenon. This paper attempts to address both of these pragmatic needs.

Regarding global diffusion of CF, the CF platform (CFP), Grow VC claimed that its members were in over 190 countries, who funded more than 4000 startups by October 2012. As of 2013, there were about 1000 CFPs worldwide, which operated on every continent except Antarctica. As of 2013, entrepreneurs in at least 27 countries had used CFPs to raise debt or equity financing for businesses (Swart, 2013).

Despite all the hype surrounding the CF, however, in reality, it has been a U.S.-centric phenomenon or West-centric at best. For instance, as of August 2012, the U.S. had 191 CFPs, the U.K. had 44 and with the rest of the Europe having 100. Massolution's estimates suggested that in 2013, the U.S. accounted for 72% of the global CF industry estimated at US\$5.1 billion whereas the shares of Europe and the rest of the world were 26% and 2% respectively (Say, 2013). Likewise, in 2012, CF campaigns worldwide raised US\$2.7 billion: US\$1.6 billion in North America, US\$945 million in Europe and US\$110 million in the rest of the world (infoDev, 2013). These figures translate to per capita CF investment of about US\$3 in North America, US\$1.30 in Europe and US\$0.02 in the rest of the world.

Despite Asia's economic and technological leadership, CF has been slow to take off in the region. For instance, CF in Japan is in infancy. In 2013, per capita CF investment in Japan was about 15 times as high as in the U.K. (Table 1). In China and India, CF has met with a lukewarm response. In Vietnam, the first CFP was launched in March 2013. CF projects in these economies have encountered barriers related to institutional environments.

Table 1. The development of the CF industry and related institutions: a comparison of Japan and the U.K.

	Japan	U.K.
CF market size (2013)	US\$80 million (Warnock and Mochizuki, 2014).	US\$578 million (donation based: US\$496 million, equity-based: US\$45 million, reward-based: US\$33 million, debt-based: US\$4 million) (Alois, 2013b).
GDP per capita, nominal (current US\$) (worldbank.org., 2015a)	38,634	41,788
GDP per capita, PPP (current international \$) (worldbank.org., 2015b)	36,449	38,452
Per capita CF investment (US\$)	0.63	9.42
CF investment per US\$10,000 of GDP	0.16	2.25

Laws and regulations related to CF	<p>May 2014: Japan passed legislation similar to the U.S. JOBS Act, which allows equity-based CF. When CF emerged, after the 2008 financial crisis, investors mainly engaged in donation-based or reward-based CF in small amounts through CFPs (Warnock & Mochizuki, 2014).</p> <p>Private companies can raise up to US\$1 million through a CFP. A person will be allowed to invest in equity CF up to US\$5000 (crowdvalley.com, 2014).</p>	<p>In 2014, the Financial Conduct Authority (FCA) introduced a “10 per cent” rule, which requires retail investors that are neither “sophisticated” nor “high net worth” to certify that they are not committing more than 10% of their net investable assets in equity-based CF (Sharman, 2014).</p> <p>The “prudential requirements” for loan-based CFPs: Firms will have to put in place a certain amount of “financial resources” to underpin their business depending on the total value of the loaned funds. Loan-based CFPs are not be included under the statutory Financial Services Compensation Scheme (FSCS), which can pay compensation if a firm is unable, or likely to be unable, to pay claims against it (out-law.com, 2014).</p>
Some key features of the CF market	<p>Investors' skepticism about promised returns has been a barrier to attract investments (Warnock & Mochizuki, 2014).</p> <p>Many people are making CF investments in businesses in Northern Japan which were affected by the 2011 quake and tsunami. They do so to “sympathize with the companies and their efforts” rather than to make a profit (bloomberg.com, 2015, para 9).</p>	<p>Some fundraisers were found to provide misleading information when selling shares. Some also found to delete negative comments in forums (forbes.com, 2015).</p>
Some well-known CFPs	Readyfor, Campfire, maneo.jp	Crowdcube.com, Seedrs.com, SyndicateRoom.com
The World Bank's ease of doing business ranking 2015 (out of 189 economies, lower number indicates a better rank)	29	8
WGI ranking (CAF, 2014)	90	7

First, CF is a form of crowdsourcing. While crowdsourcing has been widely studied, and considerable interest has focused on its impacts on numerous sectors of the economy such as open source software (OSS) development (Stewart et al., 2006), healthcare (Howe, 2006) and labor markets (Horton and Chilton, 2010); and organizational functions such as marketing (Whitla, 2009) and business process outsourcing (La Vecchia and Cisternino, 2010), its use in fundraising activities is a relatively new phenomenon. This research gap is particularly striking in light of the fact that CF differs from other forms of crowdsourcing in an important way: it involves money. Prior research has suggested that people behave differently in situations involving money. For instance, in an experiment, Ellingsen and Johannesson (2009) found that about a third of the participants demanded no compensation for their investments of time, whereas almost all demanded compensation for equally costly monetary investments.

A related point is that while a rich body of literature has focused on the underlying economic aspects of the Internet's two-sided markets (e.g., e-auctions), such markets have been an under-researched area from the standpoint of fundraising activities, especially from an institutional perspective. Huber (1990) suggested that when new uses of a technology are developed and made available (e.g., through purposefully engineered modification) or when organizations make a better use of the capability of the technology, it is important to reassess and evaluate the effects of the technology.

Prior researchers have also found that while the online CFPs tend to eliminate most of the distance-related economic frictions such as monitoring progress, providing input, and gathering information, they do not eliminate social frictions (Agrawal et al., 2011). It is important to have clearly defined rules to encourage entrepreneurship and protect investors and enforce these rules firmly. Such conditions reduce the uncertainty that entrepreneurs and investors face in the CF environment. This demonstrates the effect of formal institutions such as laws and regulations and informal institutions such as social networks and interpersonal trust on the success of a CF project. The existing literature, however, does not specify the exact nature and structure of institutions that might affect CF. This gap provides further motivation to examine the institutional influence on CBOTs' uses in fundraising.

In light of the above observations, the basic idea in this research is that an institutional perspective would emphasize on a CF project's acquisition of legitimacy from regulators, entrepreneurs, investors and other actors and thus throw a different light on the functioning of the CF industry and market. It is also important to emphasize that different forms of CF—crowdlending (LE), crowdequity (EQ), reward-based CF or pre-purchase (RE), and donation-based CF (DO)—are likely to involve different legitimacy issues and concerns. The aims of this paper are thus to propose an institutional theory of CF and articulate propositions that will guide and inform the evolvement of the CF industry and market. The theory presented here suggests that formal and informal institutions have influence on CF and that different types of institutions have differential patterns of effects on the four types of CF. Specifically it examines the following research questions:

- RQ1 How do formal and informal institutions affect the success of a CF project?
- RQ2 How do the effects of such institutions differ across different types of CF?

As emphasized above, there is a minute amount of research on the use of CBOTs in fundraising. Prior researchers have suggested that in areas like this, much initial research needs to be qualitative, concept- and theory-building in character (Eisenhardt, 1989). We draw on existing theoretical work and observations of the functioning of the CF industry and market to deduce an institutional theory of CF, which may be helpful in guiding future empirical investigation in the field.

Framing the theory in the style of positivists (e.g., Iles and Yolles, 2002; Lin, 1998), we present propositions describing how institutions affect CF. The propositions are related to each other because all of them deal with institutions as independent variables. They also specify relationships among relevant variables and thus using the criteria proposed by Huber (1990), comprise the essential elements of the theory of the uses of CBOTs for fundraising. By themselves, however, propositions do not represent a theory (Sutton and Staw, 1995). We provide reasoning and justification for the propositions and relationships, which are an integral part of a theory (Webster and Watson, 2002; Whetten, 1989).

Among the five ways identified by Gregor (2006) regarding the use of the term “theory”, the approach of this paper can be described as Type IV, that is, a theory for explanation and prediction. We explain constructs related to dependent and independent variables, their associations and the states covered by them. Such an approach would help develop a more refined understanding of the institutions—CF nexus and more finely tuned and accurate predictions (Iles and Yolles, 2002). Empirical testing may partly or fully support or refute the particulars of the proposed theory.

The paper is structured as follows. We proceed by first examining fundraising via CBOTs and suggesting some indicators to measure the success of a CF project. Next, we analyze institutions that are relevant to fundraising via CBOTs. Then, we discuss the conceptual framework and the propositions. It is followed by a section on discussion and implications. The final section provides concluding comments.

2. Fundraising via CBOTs and related institutions

As noted earlier, fundraising by CBOTs is diffusing rapidly worldwide. There are numerous types of CF projects. According to Massolution, CF can be divided into four types: donation (purely for charity such as watsi, <https://watsi.org/>), lending (e.g., Kiva's small loans to poor entrepreneurs), equity (micro-investing) and rewards. These are characterized by diverse motivations of potential investors and are affected differently and to different degrees by various institutions and related legitimacy issues. Some representative CFPs and examples of funded projects are presented in Table 2. Table 3 provides some examples of institutional influence on various types of CF.

Table 2. Some representative CFPs and examples of funded projects.

CFP	Explanation	Examples of funded projects
Idea.me (RE)	• A Latin American CFP, which as of February 2013, funded 180	• Project to create a casual game for iPod, iPhone and iPad which would “become a true vehicle for learning and cultural transfer” in the industry

	creative projects and raised over US\$1 million.	dominated by the Zombie-, ninja- or pirate-themed game apps (Leslie Forman, 2011, para. 15). Funding goal of US\$5000 was met (http://idea.me/projects/30/pewencollector)
Kickstarter (RE)	<ul style="list-style-type: none"> • Operates in the U.S., the U.K., Canada, Australia and New Zealand. • 2012: people in more than 177 countries had pledged. 	<ul style="list-style-type: none"> • Eric Migicovsky's "smartwatch", which would connect to an iPhone or Android phone to provide functions including messaging notifications, music control, distance and pace calculations for runners, swimmers, or bikers. • His fundraising goal of US\$100,000 was met within about 24 h and US\$10.3 million raised in three months
Kiva (LE)	<ul style="list-style-type: none"> • As of October 2013, 621,260 loans amounting to US\$487 million had been made through field partners in 225 countries. 	<ul style="list-style-type: none"> • A Cambodian farmer, Noun, requested a loan to hire people to transplant rice appropriately and in a timely fashion, so that she could sell her crops for a profit. She received the requested loan of US\$375 (http://www.kiva.org/lend/598339)
Symbid (EQ)	<ul style="list-style-type: none"> • Based in the Netherlands • As of September 2013, it funded 23 startups that raised over US\$2.7 million from over 15,000 unaccredited investors. 	<ul style="list-style-type: none"> • Author Martijn Arets applied for funding to get his book translated and re-published. In two months, 171 investors helped him achieve the € 20,000 goal.
Watsi (DO)	<ul style="list-style-type: none"> • A CFP in the global health area, in which 100% of donations go in the treatment for the person chosen by the donor. • Works with nonprofit health care providers in 13 countries, including Cambodia, Nepal, Guatemala and Ethiopia. 	<ul style="list-style-type: none"> • 24 donors funded heart surgery for a 12-year-old girl from Nepal, Bageshwori.
Zoomaal (RE)	<ul style="list-style-type: none"> • CFP for the Arab world launched in July 2013 with a model based on Kickstarter and Indiegogo. • As of July 2013, entrepreneurs from 22 countries across the Middle East and North Africa could post a project. 	<ul style="list-style-type: none"> • In August 2013, 543 fans of the Lebanese indie rock band Mashrou' Leila contributed over US\$66,000 to fund the release of the band's third album, <i>Raasuk</i> (Taylor, 2013).
Catarse (RE)	<ul style="list-style-type: none"> • Based in Brazil. • Raised US\$1.8 million by 2012. 	<ul style="list-style-type: none"> • US\$70,000 was raised from 3500 people to edit and produce a film about the proposed Belo Monte hydroelectric dam to be built on the Amazon region's Xingu River. In an effort to inform the public of the project's potential impact, the film captures the views of diverse stakeholders such as indigenous peoples, environmental scientists and Brazilian politicians (Rocha, 2012).

Note: crowdlending (LE), crowdequity (EQ), reward-based CF (RE), donation-based CF (DO).

Table 3. Institutional influence on various types of CF.

Type of CF	Some factors leading to international variation	Examples
Crowdequity (EQ)	<ul style="list-style-type: none">• Regulative institutions related to CF are not developed at the same rate across countries.	<ul style="list-style-type: none">• 2012: Only Australia, France, Ireland, Netherlands, Switzerland, and the U.K. were the OECD countries that permitted CFPs to sell equity.• 2012: the U.S. passed JOBS Act. Parts of the Act went into effect September 2013.• CF started in China in 2011 but CFPs are operating in a regulatory gray area.
Crowdlending (LE)	<ul style="list-style-type: none">• Legal considerations for crowdlending vary tremendously from country to country.	<ul style="list-style-type: none">• Since KIVA is not a complete banking system, legal issues in India do not allow it to lend money directly (chicagosociety, 2008).
Donation-based CF (DO)	<ul style="list-style-type: none">• People across the world differ in generosity or propensity to engage in helping a stranger.	<ul style="list-style-type: none">• Some observers note that most Indians are less likely to offer money if there is no return.
Reward-based CF (pre-purchase) (RE)	<ul style="list-style-type: none">• The degree to which people support a reward-based CF may be driven predominantly by purely philanthropic motive rather than an interest in the reward.	<ul style="list-style-type: none">• Most successful CF campaigns in Australia New Zealand and Latin America have been those related to music, dance, theater and other creative projects (launcht.com, 2013).

Crowdlending (LE), crowdequity (EQ), reward-based CF (RE), donation-based CF (DO).

2.1. The dependent variables

Weber (2012, p. 6) has identified constructs, their associations and the states covered by them as essential parts of a theory and argued that “accurate and precise description of the parts is important because they circumscribe the boundary or domain of the theory”. He suggested that the initial focus of a theory evaluation should be on the quality of its parts. In this section, we define and discuss the construct related to the dependent variables in detail.

The fundraising success of CBOT can be considered as a performance indicator of CF rather than the ultimate impact on the economy or the society. Let us explain a little, what we mean by a performance indicator of CF. For this purpose, we borrow from Ahmad and Hoffmann's (2008) framework for entrepreneurship indicators, which consists of three main building blocks: determinants, performances and impacts Ahmad and Hoffmann provide a useful analogy to understand relationships among them: Assume that a passenger wants to go from point A to point B by time t (impact). There may be various means of transportation available. Factors such as a car's engine size and fuel consumption rate are the determinants. During their journey,

passengers are informed about the current status of the direction and time by speedometers and GPS readings (the performance indicators).

Following the above analogy, CF impacts reflect the value created by CF projects for the society or the economy. These are the ultimate objectives that policy makers want to accomplish. For instance, on time delivery of the product promised by the entrepreneurs or the artist could be considered as impact indicators of CF projects. One study found that over 75% of crowdfunded ventures delivered the products much later than promised and a large proportion of CF projects were over eight months behind the schedule (Mollick, 2013). Contribution of CF in job creation and economic growth could be other examples of impact indicators.

Our dependent variable (DV) is the extent to which a CF project is able to achieve the targeted fundraising goal. The fundraising success of a CF project is CF performance measure. Note that CF performance measures are the CF-related actions that are instrumental in delivering the impacts of CF. These indicators tell the progress toward achieving the ultimate objectives. Formal and informal institutions, on the other hand, are the determinants.

2.2. The boundary conditions

A theory covers only a particular class or state of things (Weber 2012). It is important to be clear about the boundary conditions for the study and additional conditions for some of the propositions. This paper uses more general institution theory as a kind of grand theory and looks in detail at CF to see where the general notions apply. One boundary condition of our theory is that it can explain the success of a CF project that can only be attributed to rules and norms in the fundraiser's domestic environment. That is, it does not attempt to explain the effects of institutions in different jurisdictions. An additional boundary condition of our theory is that some of the propositions mainly address the effects of institutions during the early phase of the development of the CF industry or when CF-related regulations are not clearly developed. For instance, the effect of general regulatory framework to facilitate entrepreneurship on equity-based CF is likely to be less pronounced when regulations relevant to the CF are not well developed. A similar point can be made about the effects of CF-related trade associations. A final boundary condition is that we do not address outcomes beyond the ability to raise funds such as the economic impact to the society. Not all CF projects which are able to raise targeted funds promote social utility.

2.3. Taxonomy of institutions and their relevance to fundraising via CBOTs

Following North (1990, p. 27), institutions can be defined as the “macro-level rules of the game” which include “formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics” (North, 1996, p. 344). However, understanding institutional processes is more complex than suggested by this definition. In this section, we describe the formal and informal institutions and present a taxonomy of its possible interpretations ranging from laws, regulations and social pressure to personal moral norms.

One of the earliest scholars to write about rules was Black (1962). In his philosophical treatment of this concept, he identified four different ways of the use of the term rules in everyday conversations: regulations, instructions, precepts, and principles. The macro-level rules proposed by North (1990) can be viewed as consisting of regulations and precepts. In this way, institutions can be considered to be a conceptual subset of the rules as defined by Black (1962). In line with this view, this section builds on the definition of institutions and a comprehensive taxonomy of rules provided and laid out by Ostrom (2005). Black's regulations and precepts have guided Ostrom in her formulation of the definition of institutions, which she defines as “the rules, norms, used by humans in repetitive situations” (Ostrom, 2005, p. 824). When used as regulation, rules are something that are “laid down by an authority (a legislature, judge, magistrate, board of directors, university president, parent) as required of certain persons (or, alternatively, forbidden or permitted)” (Black, 1962, p. 115). An example is: “The dealer at bridge must bid first”. When used in a regulation-sense, one can refer to activities such as the rule “being announced, put into effect, enforced (energetically, strictly, laxly, invariably, occasionally), disobeyed, broken, rescinded, changed, revoked, reinstated” (Black, 1962, p. 109).

Ostrom (2005, p. 831) describes rules as used in the (moral) precept sense as “generally accepted moral fabric of a community” and “cultural prescriptions” and refers them as norms. Norms are “shared prescriptions known and accepted by most of the participants themselves involving intrinsic costs and benefits rather than material sanctions or inducements” (Ostrom, 2005, p. 831). Norms encompass a wide range of meanings and operate at various levels of the social system. For instance, social norms govern or reflect people's expectations of behavior in the entire society (Gouldner, 1960; Williamson, 1993). Differentiating from use of rules in the regulation sense, Ostrom (2005, p. 831) notes that “one would not speak of enforcing, rescinding, or reinstating a rule in the precept sense”. A precept can also be understood as a “maxim for prudential or moral behavior” (Ostrom, 2005, p. 831). An example is: “A good rule is: to put charity ahead of justice” (Black, 1962, p. 111). Certain CF-related decisions and activities (e.g., propensity to engage in online transaction and help a stranger) can be considered to be practical precepts and are more likely to be viewed as prudent and/or moral according to a particular criterion of success defined in a given cultural setting compared to a different setting.

Norms can be mapped to what North (1990) refers as informal institutions, which are especially important in understanding social friction-related issues in CF. Norms are rules-in-use rather than rules-in-form. It is important to note that rules-in-use are the “dos and don'ts” that may not exist in any written document and sometimes may actually be contrary to the “dos and don'ts” written in formal documents (Ostrom, 2005, p. 824).

Galtung (1958, p. 127) distinguishes two types of informal constraints or norms facing a person (P): Institutionalized norms are “norms from other members from the social system to P” and internalized norms are “norms from P to himself.” This emphasis on institutionalized and internalized norms is echoed in more recent perspectives on institutions. For instance, Scott (1995, p. 40) observes the existence of external and internal dimensions in institutions by stating that values and norms “... are both internalized and imposed by others”.

In order to better illustrate institutionalized and internalized norms, let us consider an example related to individuals' intention to engage in blood donation. Lemmens et al. (2005, p. 948)

measured the sources of social influences by asking a person what her/his parents, friends, partners and other loved one would think regarding the person's participation in donating blood (e.g., "My parents think I should donate blood"). Likewise, prior researchers have found that personal moral norm, which is the perceived personal responsibility to perform the behavior regarding blood donation was among the most important predictors of the intention to become a blood donor (Lemmens et al., 2005). Prior research suggests that personal moral norm, which measures an individual's feeling, judgment and disposition regarding the moral obligation to undertake a behavior, is an important predictor of the individual's intention to donate blood (Armitage and Conner, 2001). Lemmens et al. (2005, p. 948) measured personal moral norm with items such as "I feel a moral obligation to give blood," "I feel a personal responsibility to give blood," and "It is a social obligation to give blood".

Industrial norms and individual transaction norms are also examples of institutionalized norms. Industrial norms govern the functioning of an industry (Macaulay, 1963; Scherer, 1980). Individual transaction norms, on the other hand, are developed between individual firms (Zhang et al., 2003).

We use Scott's (1995, 2001) pillar model as the framework for analyzing CF. Scott's approach integrates various institutional theories and approaches from a wide variety of research disciplines such as economics, sociology and anthropology and thus encompasses the concepts discussed above. In this way, the approach to institutions used in this paper is broader in scope than that typically used by information system researchers (e.g., Anonymous, 2014; King et al., 1994).

Scott has conceptualized institutions as composed of three pillars: regulatory, normative and cognitive, which relate to "legally sanctioned," "morally governed," and "recognizable, taken-for-granted" behaviors, respectively (Scott et al., 2000, p. 238). North's formal constraints can be mapped to Scott's (2001) regulative pillar while informal constraints can be mapped to normative and cognitive pillars.

Regulative institutions consist of "explicit regulative processes: rule setting, monitoring, and sanctioning activities" (Scott, 1995, p. 35). These institutions are related to regulatory bodies and the existing laws and rules that influence CF and focus on complying with regulation (Kshetri, 2005, 2007). Adhering to these institutions, individuals and organizations would not suffer the penalty for noncompliance (Hoffman, 1999).

Scott (1995, p. 40) suggests that cognitive elements constitute the "nature of reality and the frames through which meaning is made". They represent subconsciously accepted rules and customs as well as some taken-for-granted cultural accounts related to CF. Individuals' propensity to trust strangers and help others is tightly linked to the success of a CF project. Equally important is also the disposition to trust CFPs.

Normative components introduce "a prescriptive, evaluative, and obligatory dimension into social life" (Scott, 1995, p. 37). Elements of normative institutions also include trade or professional associations and other interest groups (e.g., India's National Crowdfunding Association and Canada's National Crowdfunding Association) that can use social obligation and

codes of conduct to induce CF-related behaviors. The basis of compliance in this case derives from social and professional obligations and non-compliance can result in societal and professional sanctions (Grewal and Dharwadkar, 2002).

The taxonomy outlined above would suggest that institutions, which consist of regulations and precepts, can be divided into regulative, normative and cognitive components. The next section addresses how these components may affect various types of CF.

3. The conceptual framework and the propositions

Based on the taxonomy of interpretations of rules discussed above, Table 4 presents how Scott's three institutional pillars are related to various types of CF. The unit of analysis is a CF project.

Table 4. Independent variables related to institutions included in the theory AND effects on the success on various types of CF.

Type of CF	LE	EQ	RE	DO
Regulative ("laid down by an authority")		Proposition 1: A clear CF-related regulatory framework that balances the interests of entrepreneurs and investors reduces uncertainty (e.g., CFPs in China are operating in a regulatory gray area. Taobao shut down Make.V's offerings to sell its stocks on its website).		
		Proposition 2: CF is likely to be treated more favorably by the regulators in countries, which have a favorable entrepreneurial climate (e.g., Whereas generous tax breaks for investing in seed stage firms make equity CF an attractive option in the U.K., in Brazil, bank Caixa Econômica Federal wants to classify the activity as a contest with prizes, which has extremely high taxes on payouts).		
	Proposition 3: Authoritarian political regimes tend to oppose CBOTs due to these technologies' democratic nature (e.g., In Vietnam creative and content projects such as those related to CF are strictly regulated by the Ministry of Culture).			
Cultural–cognitive "norms from P to himself."	Proposition 4: People in some cultures have a tendency to view transacting online as an unprudential act (e.g., Asian economies' unfavorable attitude towards online transactions: Singaporeans are not comfortable with providing credit card details to an unknown site. Indonesians are less likely to trust the Internet to facilitate financial transactions).			
	Proposition 5: In a society characterized by a low degree of thin trust between strangers, people are less willing to contribute to/invest in fundraising efforts by a stranger (e.g., Runa Capital's Investment Director and the CEO of the Indonesia's Wujudkan.com have noted how mutual mistrust and the lack of trust to strangers have hindered CF)..			

Type of CF	LE	EQ	RE	DO
Normative ("norms from other members from the social system to P")			Proposition 6: A society characterized by a high tendency to voluntarily allocate time, money and other resources to charitable, social and humanitarian initiatives provides a supportive environment for CF projects (e.g., Investors in India, which is among the least altruistic countries, are speculated to be less likely to invest in CF if there is no return).	
		Proposition 7: Professional/trade associations help improve the CF ecosystem (e.g., India's and Canada's NCFAs have taken measures to promote CF).		

Note: crowdlending (LE), crowdequity (EQ), reward-based CF (RE), donation-based CF (DO).

Whetten (1989, p. 491) argued that "[d]uring the theory-development process, logic replaces data as the basis for evaluation". Prior researchers have suggested that theoretical explanations of a phenomenon are considered to be a main source of logic (Webster and Watson, 2002). In the case of this paper, institutional theory has been used as the major theoretical framework. As suggested by Webster and Watson (2002), we also employed past empirical findings as a line of reasoning in order to develop propositions. They include indicators related to cross-national differences in the number of CFPs, the size of the CF industry; results of studies undertaken to understand the motivation that drives funding in artists' projects (e.g., Galuszka and Bystro, 2012) and Charities Aid foundation's World Giving Index. Practices and experience are also valuable sources of reasoning (Webster and Watson, 2002). Sources in this category include Massolution, Russia's Runa Capital, the Indonesian CFP, Wujudkan.com and trade associations such as India's National Crowdfunding Association.

3.1. Regulative institutions' effects on fundraising via CBOTs

3.1.1. Regulations to protect investors and entrepreneurs: effects on equity-based CF

Equity-based CF is of particular concern for regulators because individuals may be lured to make substantial amount of equity investments in CF ventures. Some have referred CF as "a scandal waiting to happen" (Loveless, 2013, para. 1). Regulatory frameworks ensuring investor protection and facilitating entrepreneurship are thus important for equity-based CF (Table 4).

A criticism of CF is that this form of investment is likely to leave unsophisticated investors vulnerable to fraud. Despite attempts of CFPs to ensure transparency, existence of opportunities for investors and donors to ask publicly for information and share with peers, availability of third party companies such as crowdcube, which investigate companies and perform background checks (Avery, 2012), there are still chances of opportunistic behaviors. This is because of the

high failure rate among new business ventures, especially small businesses, and the fact that firms raising money through CF are required to make only limited disclosures (ElBoghdady, 2013). A chief concern for the regulators is to provide frameworks that provide sufficient level of protection to investors against possible frauds and impose liability. Such frameworks can promote investor confidence and facilitate equity-based CF.

A comparison of the U.K. and Japan indicates that the U.K. has more established regulatory frameworks and practices than Japan, which may explain the former's more developed CF industry. For instance, some firms were found to engage in fraudulent practices (Table 1). The offending CFPs were contacted by the FCA and were asked to make necessary changes to ensure that they were fair, clear and not misleading and fully compliant with our rules (forbes.com, 2015, para. 6). The FCA reported that all the firms showed willingness to comply and most made the required changes (forbes.com, 2015).

The arguments presented so far focused on protecting investors. There are, however, two sides of the success in a CF project. While it is important to have rules that effectively screen out for nefarious projects, rules that encourage CF for legitimate projects are equally important. It is thus important to have rules and regulations that balance the interests and perspectives of fundraisers via CFPs (e.g., entrepreneurs) as well as investors or fund contributors.

In order to better understand the roles of regulatory framework that balances the interests of entrepreneurs and investors, we can borrow from the literature on OSS development. Prior research conducted in the context of OSS development has indicated that user and developer interests are key success measures (Stewart et al., 2006). Extending this finding in the current study, it can be argued that keys to the success, growth and sustainability of CF projects are regulations that protect the interests and expectations of both investors and entrepreneurs. It is likely that some regulations enacted to protect investors may work against entrepreneurs and vice versa. A key challenge is thus to adjust regulations to account for the overall situation of CF in order to strike a workable balance between the interests and perspectives of entrepreneurs and the potential risks of investors.

Some economies have devoted particular attention to developing laws and regulations that help entrepreneurs raise equity-based CF and minimize the risks for investors. The U.S. passed Jumpstart Our Business Startups (JOBS) Act, which was signed into law in April 2012. The Act allows small firms to sell equity stakes online to a large number of investors. Businesses will not face a wide array of rules and red tapes involved with larger equity offerings for raising less than US\$1 million. This is important as most entrepreneurs are unable or unwilling to take the time to complete a huge amount of paperwork. Parts of the JOBS Act which went into effect in 2013 lifted the ban on mass marketing CF offerings to accredited investors (net worth greater than US\$1 million or individual's/couple's income over US\$200,000/300,000 for the past two years). The Financial Industry Regulatory Authority and the Securities and Exchange Commission (SEC) worked to draft CF rules. The SEC also asked CFPs to voluntarily register (ElBoghdady, 2013).

Some OECD economies adjusted CF-related regulatory frameworks earlier than the U.S. (Kshetri, 2014a). As of 2012, Australia, France, Ireland, Netherlands, Switzerland, and the U.K.

had permitted CFPs to sell equity shares (Ahlers et al., 2012). In 2014, Japan passed legislation similar to the U.S. JOBS Act.

In other economies, regulatory efforts related to CF are at various levels of development. For instance, in 2013, the Taiwanese government teamed up with GreTai Securities Market to commission studies on CF in order to ease access to capital for startups. In most developing economies, on the other hand, the development of CF is hindered by the lack of CF-related regulations. For instance, online CF started in China in 2011 but CFPs are operating in a regulatory gray area (Sandlund, 2012). To take an example, Make.V, a startup on online content production and distribution, used the e-commerce website, Taobao to sell stocks. Within a month, about 1200 individuals bought 680,000 shares worth 816,000 Yuan. Taobao subsequently argued that Chinese regulations do not allow fundraising by issuing stocks, bonds or debts without completing the legal process. Make.V's offering was thus deemed illegal. Taobao removed Make.V's listing from its website (Xiang, 2013).

The existence of a clear CF-related regulations and their enforcement in a predictable way is important for the success of a CF project, which can reduce the uncertainty of the outcome, and increase the predictability that entrepreneurs and other actors in the CF ecosystem face. Clear regulations can help an entrepreneur get supports not only from investors but also from key players in the CF ecosystem. For instance, players in the value chain (e.g., Taobao in Make.V's CF project) are less constrained by concerns about breaking the law. A related point is that well-developed regulative institutions can help improve the quality of CF proposals. A CF proposal that contains clear articulation regarding the compliance with CF-related regulatory requirements is likely to be more convincing and attract investors and funders.

The consequences of effective CF regulations are that entrepreneurs can raise money from CBOTs and that investors have confidence that they will be protected from fraudulent CF projects. It is proposed:

Proposition 1

Ceteris paribus, an entrepreneur's success in raising equity-based funds via CBOTs is positively related to the existence of a clear CF-related regulatory framework that balances the interests of entrepreneurs and investors.

3.1.2. Regulatory framework to facilitate entrepreneurship and the effects on equity-based CF

Regulators have special concerns regarding equity-based CF for which regulatory frameworks are not well-developed in most economies. In such conditions, it is reasonable to assume that laws and regulations that laid down for a broader scope of activities and purpose (e.g., entrepreneurial activities such as raising finances and investments) may be applied to equity-based CF (Table 4).

Countries vary widely in the degree of friendliness of the regulatory framework for entrepreneurship. In economies where entrepreneurs face constraints and distortions such as red-tapes and high tax burdens, entrepreneurs may be discouraged from raising equity-based CF. On

the other hand, in a country where promoting productive entrepreneurship is a national priority, the legislature and the government may put their support behind equity-based CF even without clear legal rules.

Let us compare Brazil and the U.K. for this purpose, which ranked no. 120 and 8 respectively in the 2015 World Bank's ease of doing business index. In the U.K., generous tax breaks for investing in seed stage favor equity CF (MacLellan, 2013). On the other hand, in Brazil, the undeveloped regulatory framework has led to a problematic interpretation of CF. The state bank Caixa Econômica Federal, which is the government department responsible for regulating lotteries and other contests, wanted to classify CF as a contest with prizes. Such interpretation may limit the growth of the CF due to extremely high taxes on payouts (flaviogut.com, 2012). In line with these arguments, the following proposition is presented:

Proposition 2

Ceteris paribus, in the absence of a clear CF-related regulatory framework, an entrepreneur's success in raising equity-based funds via CBOTs is positively related to the degree of friendliness of the general regulatory framework for entrepreneurship.

3.1.3. Authoritarianism as regulative institutions: effects on all types of CF

Authoritarian regimes tend to use ill-defined executive power to impose constraints on political institutions, groups and the public through repressive tactics and prohibition of anti-regime activities (Shorten, 2012). Such rules, as well as monitoring and sanctioning systems are regulative processes and thus are a key component of regulative institutions (Scott, 1995). Authoritarian regimes' attitude and orientation toward CFPs are likely to affect all types of CF negatively (Table 4).

Prior research indicates that the compatibility of an innovation with the needs of various actors determines its diffusion rate (Rogers, 1983). CBOT and democratic nature of the CF seem to be incompatible with authoritarian regimes, which have demonstrated distastes for ICTs that allow interpersonal interactions. For instance, Buchner (1988), in a comparison of the diffusion of telephone and television in Marxist and non-Marxist European nations, found that the penetration rates of telephones in comparison to television were much lower in the former than in the latter.

The Internet is arguably a key force to promote democracy (Pitroda, 1993). A related point is that CF arguably “democratizes finance” (Shiller, 2013, p. 22). Authoritarian regimes tend to oppose the general public's unfettered use of the Internet by censorship and cyber-control measures, which are likely to hamper CF activities. In order to illustrate this, let us consider some countries in the “not free category” of Freedom House's survey of political freedoms. In January 2015, the government of the Democratic Republic of the Congo ordered to shut down the Internet and SMS services. Other authoritarian regimes in Africa such as Egypt, Uganda, Sudan and Central African Republic have engaged in similar practices (Micek, 2015). China's approach to regulating the cyberspace reflects the tension it faces between using modern ICTs to maintain

unity and stability via cyber-control and using them to stimulate economic growth and productivity (Kshetri, 2014b).

The above concerns have been raised in CF. For instance, in Vietnam creative and content projects are strictly regulated by the Ministry of Culture. The founder of Vietnam's first CFP, IG9 noted that CF disrupts the top-down model dominated by big investors and empowers investors (Do, 2013). As Make.V's case discussed above suggests, private companies such as Taobao are required to self-regulate online activities on their websites. Overall, CF's bottom-up and participatory approach would pose difficulties in countries without political freedom where online contents are largely top-down and monitored. Authoritarian regimes are thus less likely to accept the legitimacy of CF. Based on above discussion, the following proposition is presented:

Proposition 3

Ceteris paribus, a CF project (LE, EQ, RE, DO) is less likely to be successful in raising funds via CBOTs in an economy characterized by an authoritarian political structure.

3.2. Cultural-cognitive institutions' effects on fundraising via CBOTs

Individual trust reflects a potential investor's perceptions regarding the reliability and integrity of the CFP or the organization raising the funds. Prior research indicates that such a mental map can be considered to be a component of cognitive institutions (Kshetri, 2013; Scott, 2001).

3.2.1. Trust in online transactions as cultural–cognitive institutions: effects on all types of CF

An important aspect of potential CF investors' mental maps concerns attitudes toward CFPs. The degree of trust that potential investors place on CFPs affects the performance of all types of CF (Table 4). For instance, consumers in many Asian economies are characterized by an unfavorable attitude toward online transactions. In these economies, the lack of a sizable market of early adopters comfortable with supporting CF through online transactions has hindered the growth of the market. Regarding the slower take off of CF in Singapore, Renyung Ho, co-organizer of CreativeMornings Singapore and co-founder of Kennel, a co-working space, noted: “One problem we faced as project creators was that some of our pledge supporters were not comfortable with providing credit card details to an unknown site. Many were also not familiar with using PayPal. Instead, we got more supporters pledging money through bank transfers and cheque deposits” (Soh, 2013, para. 18). Likewise, the CEO of the Indonesian CFP, Wujudkan.com, Mandy Marahimin noted that “a lot of Indonesians still have yet to trust the Internet to facilitate financial transactions” (ehipnews.com, 2013, para. 2).

As noted earlier, cultural factors play a major role in determining what might be regarded as a prudent decision (Ostrom, 2005). The line of argument developed above leads us to the suggestion that for people in many Asian economies, transacting online is against their principles of prudent behavior. In sum, we argue that:

Proposition 4

Ceteris paribus, a CF project (LE, EQ, RE, DO) is less likely to be successful in raising funds via CBOTs in an economy characterized by a low degree of trust in online transactions.

3.2.2. Thin trust between strangers as cultural–cognitive institutions: effects on all types of CF

Investing in CF, irrespective of its type, often involves contributing to or investing in fundraising efforts initiated by a stranger. As noted earlier, the laws in many economies do not allow selling equity stakes to CF backers. Investors may receive token gifts, rewards and recognition. Some CFPs such as Indiegogo and Kickstarter train consumers to commit to buy goods even before their existence (Kshetri, 2014a). Such commitment requires trusting others. The propensity to trust strangers is thus likely to affect all types of CF (Table 4). What is important here is thin trust between strangers rather than thick trust between people that know each other.

Prior research suggests that decisions related to economic undertakings are shaped by social behaviors (Lai et al., 2014). To put things in context, the degree of social trust among community members is a key component of social capital, which is related to obligations and expectations of support among community members, normally outside the family and ethnic group (Coleman, 1988). Commenting on CF barriers in Russia, Gaidar Magdanurov, Runa Capital's Investment Director noted: “People want to be part of something constructive and have the money to do it. But the level of mutual mistrust here is higher, so crowdfunding will take longer to gain a foothold in Russia” (Avshalumova, 2013, para. 4). Likewise, the CEO of the Indonesian CFP, Wujudkan.com noted that Indonesians are less comfortable in trusting a stranger (ehipnews.com, 2013). In the same vein, it is argued that Arab consumers tend to be suspicious and convincing them to invest in a project is not an easy task (Khalil, 2013). We propose that:

Proposition 5

Ceteris paribus, a CF project (LE, EQ, RE, DO) is more likely to be successful in raising funds via CBOTs in an economy characterized by a high degree of thin trust between strangers.

3.3. Normative institutions' effects on fundraising via CBOTs

3.3.1. Philanthropy as normative institutions: effects on reward- and donation-based CF

Philanthropy can be viewed as a social relationship in which donors and recipients engage in projects that have mutual and shared interests (Ostrander, 2007). Such social dimension is an important component of normative institutions (Scott, 1995). Philanthropy and benevolence are more likely to affect reward- and donation-based CF projects than those motivated by economic returns such as equity- and loan-based CF projects (Table 4).

Prior research indicates that social norm is a key determinant of whether, and how much people give (Radley and Kennedy, 1995). The degree of philanthropic involvement, which is defined as the degree to which people voluntarily allocate time, money and other resources to charitable, social and humanitarian initiatives and activities (Ricks and Williams, 2005) is thus linked to the success of a donation- or reward-based CF project.

Looking at the pattern of CF, it is clear that something more than pure business dominance is going on. According to Massolution, CFPs seeking donations for charity or funding for creative projects in return for non-financial rewards (e.g., merchandise, access to computer games, or autographed albums) accounted for US\$1.4 billion worldwide in 2012, which was more than half of the total CF investments (huffingtonpost.com., 2013). Massolution reported that social or philanthropic projects accounted for 30% of the worldwide CF investment in 2012. A CF project involving social or philanthropic purpose such as donations for charity is more likely to be successful in societies with a sense of social obligation to help others.

People in some societies lack an intrinsic motivation to help others and demonstrate a weak socio-cultural orientation toward CF projects. For instance, the lack of civic and psychological orientations and the lack of training have hindered the development of the Arab CF industry (Khalil, 2013). These factors have arguably led to Arab countries' low level of charitable giving. One way to understand this aspect is that, compared to the West the Arab society is characterized by a low degree of social capital (Atiyyah, 1992).

One indicator to understand the cross-cultural heterogeneity in generosity and propensity to help a stranger or volunteer time is the Charities Aid foundation's World Giving Index (WGI). WGI for 2014 was based on Gallup survey of 135 nations. The survey asked whether the respondents had given money to charity, volunteered or helped a stranger. The WGI for 2014 varied from the lowest of 14% for Yemen to the highest of 64% for the U.S. and Myanmar (CAF, 2014).

Consider India, which ranked at 69 (WGI: 29%). According to the survey, only 39% of Indians gave money to charities, 21% volunteered time and 38% helped a stranger (CAF, 2014). Some observers note that people in India care less about social causes and are less likely to offer money if there is no return (Chaudhary, 2013).

Obviously people's propensities to engage in philanthropic activities determine the success of donation-based CF projects. For instance, a study conducted in Poland indicated that a higher proportion of respondents were motivated by helping artists rather than an investment as a motivation (Galuszka and Bystro, 2012). Moreover, the degree to which people support a reward-based CF may be driven predominantly by a philanthropic motive rather than an interest in the reward.

Table 1 indicates that the U.K. performs better than Japan in the WGI ranking. This might have played an important role in the former's relatively bigger sizes of donation based and equity-based CF than the latter. Overall, societies characterized by a high tendency to voluntarily allocate time, money and other resources to charitable, social and humanitarian initiatives provide a supportive environment for the success of reward- and donation-based CF projects. The above leads to the following:

Proposition 6

Ceteris paribus, a CF project is more likely to be successful in raising reward- and donation-based funds in an economy characterized with a high degree of philanthropic involvement.

3.3.2. Trade associations as normative institutions: effects on equity- and reward-based CF

Trade associations are an important component of normative institutions due to their roles in establishing norms and expectations for organizations (Kshetri, 2013). Many CF-related trade associations have been established mainly to influence entrepreneurial activities by promoting equity- and reward-based CF (Table 4). Regarding the effectiveness of such associations, it is worth noting that while the state is the most important institutional actor since violations of laws and regulations can result in harsh sanctions (Groenewegen and Van der Steen, 2007), national legal systems related to CF are far from effective in directing organizations' and individuals' behaviors. In nascent and formative sectors such as CF, there is no developed network of regulatory agencies comparable to those in established sectors (Kshetri and Dholakia, 2009; Powell, 1993). As a consequence, there is no stipulated template developed for organizing institutional actors' behaviors (Greenwood and Hinings, 1996).

Trade associations may play key roles in shaping the growth of a nascent sector such as CF. In prior literature, researchers have noted that such associations constitute the “most elaborate and intricate organizational arrangements” (Scott, 1992, p. 253) and play a significant role in legitimating institutional changes (Greenwood et al., 2002). Prior researchers have also emphasized that stakeholders that influence and are influenced by an ICT policy (e.g., trade associations) and the environment in which the policy is to be carried out are the most important factors shaping such policy (Anonymous, 2014).

Among the key CF-related stakeholders are associations and trade groups. As of October 2013, World Crowdfund Federation (www.worldcrowdfund.org/) had members representing 17 countries/regions, which consisted of nonprofit associations and trade groups related to CF. Table 5 presents some representative examples of such associations and trade groups.

Table 5. Some representative examples of associations and trade groups related to CF.

Association	Country/region
The National Crowdfunding Association (the U.S.)	• Formed in March, 2012, its mission is to “support, educate, and protect” the U.S. CF market (nlcfa.org , UN, para. 1). It represents the interests of investor as well as the entrepreneur in equity, reward or donation CF.
National Crowdfunding Association of Canada	• It aim is to work closely with industry groups, government agencies, academia as well as other associations and in order to create a “strong and vibrant CF industry and voice across Canada”.
National Crowdfunding Association of India	• Its mission is to “support, educate, and establish” the Indian CF market (Alois, 2013a, para. 4). Membership is open to entrepreneurs, investors, and other actors interested in the development of the donation- as well as equity-based CF industry.
The UK Crowdfunding Association	• It was formed in 2012 by fourteen CFPs in order to create policies and best practices for the CF industry and market, which had over twenty members as of October 2013. Among its aims are to be the voice of all CF businesses (donations, loans and equity) to the public, press and policymakers and publish a code of practice for CF businesses.

European Crowdfunding Network	<ul style="list-style-type: none"> • Founded in 2011 as an interest group, it aims to promote transparency, self-regulation and governance in the CF industry, become the direct for the public's voice in policy making and cultivate public opinion. It also aims to further the understanding of the CF's roles in supporting entrepreneurship, creating jobs, enriching the European society, culture and economy, and protecting the environment.
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Trade associations and non-government organizations have provided some degree of institutional co-ordination in order to overcome the existing regulatory gap in CF and initiated steps to improve the CF ecosystem. For instance, the European Crowdfunding Network (ECN) was established in order to promote transparency, self-regulation and governance. The ECN aims to offer a voice in policy discussion and build a favorable public opinion of CF (Alois, 2014). Another example can be found in India, which had no formal laws governing CF as of 2013. The National Crowdfunding Association was established in 2012, whose mission is to “support, educate, and establish” India's CF market (Alois, 2013a, para. 4).

Likewise, in Canada, the National Crowdfunding Association (NCFA) was created in order to voice the opinions of citizens and small businesses. Since there is no central regulator in Canada, rule changes in each of the country's 13 provinces and territories are required for equity CF to take place (launcht.com, 2013). The NCFA promotes awareness, advocacy, education and information about CF by working closely with diverse stakeholders such as industry group, trade associations, investors, government agencies, media, the public and academia in order to promote the CF industry's development. The Association aims to promote opportunities for networking and collaboration among CF professionals and share of best practices, organize webinars, conferences and other events, and identify and report frauds. The NCFA is making efforts to change the political, cultural and social discourses around CF.

Trade associations can perform various roles in order to enrich the CF ecosystem. For instance, they can find ways to develop the talents and special abilities needed for the development of CF industry and market. They can train entrepreneurs and other categories of fundraisers to write quality CF proposals, which can pass all the steps successfully and raise the targeted funds. They can also help develop the ability among fundraisers to strengthen the track record of delivering quality products. Moreover, they can help fundraiser develop and implement effective advertising campaigns for CF projects. Especially in emerging economies, trade associations not only replace the roles that are often played by consultancy firms in filling the institutional voids (Back et al., 2014), but they may also engage in lobbying activities to convince policy makers to introduce legislative measures to facilitate the growth of CF. The discussion in this section is summarized as:

Proposition 7

Ceteris paribus, a CF project is more likely to be successful in raising equity- and reward-based funds in an economy characterized by the existence of CF-related trade associations.

4. Discussion and implications

From the above discussion it is clear that some of the major critical success factors for a CF project are tightly linked to the context provided by formal and informal institutions. That is, legitimacy issues from regulative, cognitive, and normative points of view are likely to influence the characteristics of a country's CF ecosystem and affect the success of CF projects.

The theory presented in this paper provides an approach to answering our two research questions posed earlier. They were: RQ1: How do formal and informal institutions affect the success of a CF project?; RQ2: How do the effects of such institutions differ across different types of CF? Regarding the RQ1, the above discussion provides some insights into a CF project's acquisition of legitimacy in countries high in social capital, which are characterized by high degrees of thin trust and philanthropy involvement. The paper also provides insights into how regulators and trade associations can undertake activities that facilitate or hinder the performances of various forms of CF. In particular, CF's bottom-up and participatory approach would pose difficulties in countries where online contents tend to be largely top-down and monitored. While the governments of some authoritarian regimes such as China are interested in promoting entrepreneurship, they are against the diffusion of some uses of ICTs, which may slow down the diffusion of CF.

As to the RQ2, it is clear from the seven propositions that different types of institutions have differential patterns of effects on the four types of CF. This point is also illustrated in Table 4 which shows how some institutional components affect all types of CF but other components affect only some types of CF. For instance, authoritarianism and online experiences are likely to affect all forms of CF (Proposition 3 and Proposition 4). The main concern here is with the CFP rather than the fundraising activities. Authoritarian regimes tend to view the democratic nature of CFPs as a powerful challenge to their right to rule (Proposition 3). Likewise, in some cultures, there is a low propensity to trust CFPs and other online tools (Proposition 4). On the other hand, the creation of CF-related regulatory frameworks that balance the interests and perspectives of entrepreneurs and investors and general regulatory frameworks that facilitate entrepreneurship development mainly affects investments made with a profit motivation such as equity-based CF (Proposition 1 and Proposition 2). Although reward-based CF is greatly facilitating entrepreneurship, most countries have minimal regulations pertaining to this form of CF (Schroter, 2014). Most regulators are less interested in other forms of CF which often involve small amounts of money. Likewise, the focus of CF-related trade associations has been mainly on promoting entrepreneurship through equity- and reward-based CF (Proposition 7). Cultural-cognitive and normative institutions such as the degree of thin trust and the degree of philanthropy involvement affect funding without a profit motivation such as donation- and reward-based CF.

The theory presented in this paper also helps us understand the observed West-centricity of CF, which can be attributed to the formal and informal institutions that are friendlier to CF in the Western economies than in other parts of the world. A related point is that a lower rate of diffusion of CF in Asian economies can be explained as a result of a nascent institutional environment in the continent as well as the lack of compatibility with this form of funding. Entrepreneurs in Asian economies, however, have one important advantage over the West: social networks. Some experts have suggested that due to vulnerability to fraud, entrepreneurs are likely to be better off beginning their CF initiatives with their personal social networks

(startupexemption.com, 2012). Since entrepreneurs in Asia tend to have an easier access to such networks due to the continent's history of backing smaller businesses and attracting funding from family and friends, CF would just move them into the digital environment (Huang, 2012). That said, the legitimacy issue may change with the scale of CF and the nature of the participants. In collectivist societies (e.g., Asia), the weak links people have outside their close circle of family and friends may lead to weak legitimacy of the CF from individuals outside this circle. Due to the low degree of thin trust, large-scale CF projects requiring huge amount of capital are thus less likely to perform well in Asia compared to the West.

Compared to economic/technological factors, formal and informal rules of the game change slowly (Baumol, 1990). The legal system in an industry evolves more slowly compared to the development of the technology. In most economies, the CF industry is in urgent need of a clear regulatory framework. Moreover, informal institutions (e.g., the degree of thin trust) tend to change even slower compared to formal institutions (e.g., CF-related laws). North (1990, p. 6) noted: "although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies". In some societies, concerns related to informal institutions such as the low propensity to trust strangers, the lack of generosity and a low degree of philanthropic involvement are likely to be more difficult to overcome.

It is important to discuss the interrelationship among the various components of institutions. North (1994) observed that informal rules provide legitimacy to formal rules. Likewise, Axelrod (1997, p. 61) commented: "Social norms and laws are often mutually supporting. This is true because social norms can become formalized into laws and because laws provide external validation of norms". The above propositions thus are not independent. For instance, fair and appropriate regulations may lead to the success of substantial CF projects. Exemplary CF projects, on the other hand, may drive social and cultural changes, which may lead to a higher propensity to trust strangers (thin trust) and confer legitimacy to CF. As another example we can mention a long history of tax incentives and codes that promote and encourage charitable giving and financial literacy programs in the U.S., which may explain the country's dominance in the global CF industry. Partly due to the lack of such regulations, Arab consumers are at an educational, cultural and psychological disadvantage, which explains the apparent lack of philanthropic spirit among them (Khalil, 2013).

Regarding the effects of trade associations, they may be more effective in changing national CF policy and less effective in changing deeply ingrained cultural conventions, assumptions and practices. Compared to other CF types, they are thus likely to have relatively stronger effects on equity-based CF, where regulatory effects are a dominant influence on the behaviors of entrepreneurs and investors.

4.1. Management and policy implications

Assuming that relevant empirical evidence is found supporting the validity of the above propositions, our account has implications for management practices and public policy. In addition to policy efforts directed toward developing regulatory framework related to CF and improving the conduciveness of the regulatory environment to entrepreneurship, policy measures

can be devised to change some components of informal institutions. For instance, measures taken to enhance consumers' digital experience and tax incentives and codes that promote and encourage charitable giving would give a major boost to CF.

The evolution of CFPs may influence entrepreneurial financing in a number of ways. For instance, CFPs may stimulate new investments. They may also modify the nature of existing investments. Finally, CFPs may just replace other forms of investment. The functioning of CFPs is critical to understanding the evolution of CF. In this regard, the first observation is that CFPs employ various mechanisms to screen the projects they display. The CFP, Seedrs, for instance, verifies the registration status of a firm. Only about a quarter of businesses that apply are accepted following Seedrs' oversight process, and of those, only about 12% get funded (Knowledge@Wharton, 2013). Likewise, China's first CFP, Demohour displays only 10% of the projects received (Xinhua., 2013). There remains the question of whether CF will stimulate new entrepreneurial activities by acting as a new source of funding for potential entrepreneurs who lack access to other funding sources or it will just act as an alternative source of funding for entrepreneurs who are also likely to have access to other sources. In the latter case, CF would just replace alternative sources of funding and thus would not have additional stimulation effect on entrepreneurial activities. It is essential to recognize that there is a large unmet need for entrepreneurial financing for most would-be entrepreneurs. For instance, demand exceeds supply by a large factor in the global microfinance industry and market. One estimate suggested that as of 2010, 2.5 billion of the world's adults did not use formal or semiformal financial services (e.g., MFI) (Chaia et al., 2010). A 2007 report from the Deutsche Bank indicated that due to MFIs' funding limitations, only 10% of potential borrowers get loans. Looking at the criteria used by CFPs to scrutinize potential entrepreneurs, it is unlikely for most of the bottom of the pyramid entrepreneurs to get access to CF.

Structural factors in developing countries which hinder SMEs' access to traditional forms of financing may also work against access to CF. For instance, many developing economies are characterized by the lack, or poor performance, of credit rating agencies to provide information about the creditworthiness of SMEs. A national credit bureau would collect and distribute reliable credit information and hence increase transparency and minimize the banks' lending risks. Many emerging economies lack such agencies or have poorly functioning ones. This situation puts SMEs in a disadvantaged position in the credit market. This is because SMEs tend to be more informationally opaque than large corporations because the former often lack certified audited financial statements and thus it is difficult for banks to assess or monitor the financial conditions. Thus many SMEs may not pass background checks carried out by third parties such as Crowdcube. This raises the possibility that SMEs that desperately need entrepreneurial financing may be the ones that are least likely to receive such funding. It is likely that the same entrepreneurs that have abilities to receive other sources of funding may have the greatest potential to benefit from CF. In this way, CF may replace alternative sources of funding and thus threaten the traditional credit and loan providers such as the banks and credit card companies. One estimate suggested that, in 2012, crowdlending, or peer-to-peer finance accounted for about three-quarter of funds raised by CFPs (Avery, 2012).

It is important for the owners and promoters of CF projects to understand the cross-cultural variation in the investors' and fund contributors' expectations and motivations. Such an

understanding can help prepare effective project pitch presentation, which may be viewed favorably by potential investors and fund contributors. For instance, many CF projects promoted by U.S.-based CFPs such as Kickstarter are product-based and people fund them expecting to receive a product in return. Brazilians, on the other hand, are arguably more interested in the project's social benefits (MCS, 2013).

In the absence of appropriate policy measures, potential entrepreneurs who desperately need financing are less likely to benefit from CF. This situation demonstrates the need to expedite the establishment of, as well as to improve the effectiveness of credit rating agencies and develop targeted educational and training interventions that would enhance awareness of and ability to use CF by people at the bottommost of the economic pyramid.

Entrepreneurs and other categories of fundraisers interested in raising funds for projects to be undertaken in an economy with an unfavorable CF-related institutional environment can focus their efforts to attract funds from donors and investors from economies that have more conducive institutional environment for CF. This approach is especially suitable for reward-based and donation-based CF, which tend to be more dependent on cultural-cognitive and normative institutions compared to other types of CF. For instance, in order to finance social projects in countries in which people lack philanthropic initiative, fundraising activities can be carried out in countries with a history and tradition of generosity and philanthropy. One such example is the project undertaken by Watsi to fund heart surgery of a 12-year-old girl from Nepal (Table 2). Crowdlending and crowdequity tend to be more regulated by the governments and in most cases the regulations are equally applicable to fundraising in the domestic market from domestic and foreign investors. However, there may be less concern for the regulators of a country if an entrepreneur from the country raises crowd-equity in foreign countries with more developed regulative institutions for raising such funds.

Finally, given the global nature of CF, its growth hinges critically upon the compatibility of the payment mechanisms across countries. For instance, one challenge the CFP, Ideame has faced in becoming a regional player in Latin America concerned the variation in payment systems across economies in the region. It uses Dineromail for Chile and Mexico, MercadoPago for Argentina and MoIP for Brazil (Sreeharsha, 2012). International cooperation to harmonize such systems can stimulate the growth of this industry.

5. Future research

An important area for future research is to empirically test the propositions developed in this article. Such a test will be feasible when measures related to the dependent variables such as the size of the CF market and its various subsets become available for a broad range of countries. Table 1 provides some hints regarding how dependent variables and some independent variables can be measured with data aggregated at the country level. While constructs related to the trust in online transactions (Proposition 4) and thin trust (Proposition 5) can be difficult to measure, in Table 6, we offer some ideas as to how independent variables related to the remaining five propositions can be measured. During the early stage of the development of the CF industry, the existence of a CF-related regulatory framework for equity-based CF (Proposition 1) can be measured as a dichotomous variable (existence/non-existence). The World Bank's ease of doing

business ranking can be used to measure the friendliness of the general regulatory framework for entrepreneurship (Proposition 2). Authoritarianism (Proposition 3) can be measured with Freedom House's civil liberties index or political freedom index. Likewise, WGI can be used to measure independent variables related to Proposition 6. Finally, the existence of CF-related trade associations can be measured as a dichotomous variable (existence/non-existence) (Proposition 7).

Table 6. Measuring the independent variables.

Variable and related proposition(s)	Explanation	Related CF type(s) likely to be affected
The existence of a CF-related regulatory framework for equity-based CF (Proposition 1)	• A dichotomous variable: Existence or non-existence of laws governing equity-based CF.	EQ
The friendliness of the general regulatory framework for entrepreneurship (Proposition 2)	• The World Bank's ease of doing business ranking: A high ranking indicates that a country's regulatory environment is more conducive for starting and operating a business (The World Bank, 2015).	EQ
Authoritarianism (Proposition 3)	• Civil liberties index or political freedom index of the Freedom House: A country is assigned two numerical ratings (1 to 7) for political rights and civil liberties (1: most free, 7: least free) (Freedom House, 2015).	LE, EQ, RE, DO
The degree of philanthropic involvement (Proposition 6).	• Charities Aid foundation's WGI score, which is based on three indicators of giving behavior: proportion of people donating money to charity, volunteering time, and helping a stranger in a typical month (CAF, 2014).	RE, DO
Existence of CF-related trade associations (Proposition 7).	• A dichotomous variable: existence or non-existence of a CF-related trade association.	EQ, RE

Note: DV (project level): The extent to which a CF project is able to achieve the targeted fundraising goal.

DV (national level): Per capita CF investment (one or more categories as predicted by the proposition under consideration).

Crowdlending (LE), crowdequity (EQ), reward-based CF (RE), donation-based CF (DO).

One issue that was raised but not fully addressed by the current study is the evolution of CF-related associations (e.g., the NCFA of Canada). In future conceptual and empirical work scholars need to analyze these associations' roles by considering them as institutional change agents or institutional entrepreneurs. Note that institutional entrepreneurs challenge or disrupt particular models of social or economic orders and construct new organizational fields (Bartley, 2007). They “lead efforts to identify political opportunities, frame issues and problems, and

mobilize constituencies” and “spearhead collective attempts to infuse new beliefs, norms, and values into social structures” (Rao et al., 2000, p. 240). They also engage in activities related to deinstitutionalization or dissolution of existing logic or governance structure as well as institution formation, which entails the birth of a new logic or governance structure (Scott, 2001). It is important to analyze the nature of resources available with CF-related associations and how they mobilize external and internal constituents, gain legitimacy, bridge the interests of diverse stakeholders and influence other actors to change their practices. Future research can also compare the roles of CF-related trade associations with similar association in other industries (e.g., offshoring industry in Kshetri and Dholakia, 2009).

Another related future research direction is to analyze the factors that affect the evolution of CF-related trade associations and compare such evolutions across countries. For instance, compare China and India. Whereas India's NCFA has been active in shaping the Indian CF industry and market, in China, special interest groups and non-government entities are organized loosely and there is little room for them to influence national policymaking (Su and Yang, 2000). A related concept to the influence and power of non-government actors is that of a participatory state, in which policies and institutions represent the wishes of the members of society (Sobel, 1999). In such a state, businesses participate in the national policy making arena through “dialogue, litigation, and mimesis” (Edelman and Suchman, 1997, p. 502). Business groups can also work closely with state agencies to protect their independence and autonomy (Greenwood and Hinings, 1996). Future research can examine how the mechanisms described above may affect the evolution and functioning of CF-related trade associations.

Fourth, the above discussion indicated that a large proportion of projects received by CFPs are not displayed. In this research, we only looked at how institutional factors affect investors' ability and willingness to invest in a CF project. In this regard, another intriguing avenue for future research is to examine how institutional factors affect the CF-related knowledge, skills and abilities of various actors in the CF ecosystem, presentation of CF projects and projects that are displayed by CFPs.

Fifth, in addition to raising capital, CF's advantages also include providing start-ups with a platform to pilot marketing ideas and gather market data before spending money on a campaign. Individuals across the world differ significantly in the way in which they view and provide supports to these initiatives. Especially the effectiveness of such an approach may be reduced in an economy with an underdeveloped market culture. In future research, thus, scholars may study the institutional settings as well as the nature of products and services that are suitable for such purpose from the perspective of CF.

Sixth, there is a cross-cultural variation in the fundraisers' and fund contributors' goals, expectations, attitudes and motivations associated with CF projects. For instance, it is common that projects in U.S.-based CFPs such as Kickstarter are funded at much higher levels than originally asked for by the project creators (e.g., 500%, 1000% or more). One such example is Eric Migicovsky's “smartwatch” (Table 2). As noted earlier, whereas many CF projects promoted by U.S.-based CFPs are product-based and people fund them expecting to receive a product in return, Brazilians tend to be more interested in the project's social benefits. It is also rare in Brazil for a project to be funded at a level higher than asked for by the project creator

(MCS, 2013). Future research into this area may help understand cross-cultural differences in cognitive preferences that may be attributable to this difference. Further research is also needed to examine how the various CF types differ across cultures in terms of fundraisers' and fund contributors' goals, expectations, attitudes and motivations.

Seventh, in future research scholars also need to consider the effects of individuals' income level and general education level on their willingness to contribute to fundraising via CBOT. Prior research indicates that the income level and general education level are tightly linked to political and social engagement. Holm and Danielson's (2005) study conducted in Tanzania and Sweden indicated that people have a lower tendency to trust strangers in developing countries than in developed countries. Likewise, Nie et al. (1996) showed that individuals with higher education levels are more likely to trust strangers, engage in civic actions and participate in elections. Moreover, cooperative behavior is also a function of the level of education of the social environment in addition to the focal person's level of education. Helliwell and Putnam (2007, p. 1) noted: "My behavior can be affected not only by my education, but also by that of others around me. The core issue is whether (holding constant my own education), I am more likely or less likely to participate politically and socially if those around me become more educated". The idea here is that when a higher social capital in groups leads to an increase in the propensity to trust strangers and outsiders, everyone is likely to be better off due to the generalized benefits of social capital and thin trust (Cox, 2004).

Finally, in this research, we did not assess the impact of various characteristics of the entrepreneurs and other categories of fundraisers that would determine the success of the CF project. In future research scholars also need to consider how factors such as reputation of the artist would affect the success of a CF project.

6. Concluding comments

The above discussion makes it clear that for CF projects, formal and informal institutions mediate the relationships among fund raisers, potential investors, regulators and other social actors. Friendly regulative, normative and cognitive institutions are key elements of a well-developed CF ecosystem, which provide a positive feedback and create a virtuous circle of CF. A well-functioning CF ecosystem, on the other hand, provides an opportunity for entrepreneurs to develop CF campaigns with effective project pitch presentation, which is viewed favorably by regulators and potential investors.

From the above analysis, it is clear that regulators directing efforts to encourage the development of the CF industry and market as well as entrepreneurs, artists, and other entities interested in fundraising via CFPs need to consider the complexity associated with the actions of various institutional actors and their diverse legitimacy concerns. Due to the underdeveloped regulatory framework and the unique nature, there is a higher likelihood of investors being duped by CF than by most other forms of investment. On the other hand, regulations that focus too narrowly on investor protection may hinder genuine entrepreneurial efforts. Thus promulgation of effective CF regulations will require effective and careful balancing of the interests of investors and entrepreneurs.

Overall given regulators' interest in stimulating entrepreneurial activities, we might expect more rapid changes in CF-related formal/regulative institutions compared to informal institutions. On the other hand, in the long run, if a favorable regulatory environment is created and many successful CF projects are undertaken, we would also expect positive changes in cognitive and normative institutions related to CF.

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